

## Ways and Means Chairman Camp Proposes Small Business Tax Reforms

WASHINGTON, D.C. (MARCH 12, 2013)

BY MICHAEL COHN

The chairman of the tax-writing House Ways and Means Committee, Dave Camp, R-Mich., released a set of proposals Tuesday aimed at reforming the tax laws for small businesses.



Dave Camp

Camp has previously proposed tax reforms for corporations and financial derivatives (see [Congressional Republicans Propose International Tax Reforms](#) and [House Republicans Propose Tax Reforms for Financial Products](#)). The goal of Camp's latest **discussion draft** is to spur greater job creation and higher wages for American workers by reducing the burden the Tax Code imposes on small businesses.

As part of a broader, comprehensive tax reform package that significantly lowers rates for individuals, small businesses and corporations, the discussion draft proposed by Camp would reform and try to simplify a number of tax rules affecting small businesses and their workers. To help strengthen the economy by helping small businesses expand operations, hire new workers and increase wages and benefits, the discussion draft contains several components that simplify tax compliance for small businesses and provide certainty with respect to the ability of small businesses to recover certain costs immediately. These include widely supported reforms such as permanent Section 179 expensing and expansion of the "cash accounting" method, amongst other provisions.

The discussion draft includes two separate options designed to achieve greater uniformity between S corporations and partnerships. The Ways and Means Committee is soliciting comments from stakeholders on both options: one that revises current rules and a second that replaces current tax rules with a new unified pass-through regime.

Camp said the ideas draw from proposals from both Republican and Democratic lawmakers. He has been meeting on a regular basis with his Senate counterpart, Senate Finance Committee chairman Max Baucus, D-Mont., to exchange ideas on tax reform, and the two lawmakers sat next to each other during President

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Obama's State of the Union address.

The discussion draft released Tuesday incorporates components of legislative proposals that have been advanced throughout the years by both Democrats and Republicans on the Ways and Means Committee, including Representatives Jim Gerlach, R-Pa., Ron Kind, D-Wis., Lynn Jenkins, R-Kan., Joe Crowley, D-N.Y., Aaron Schock, R-Ill., Mike Thompson, D-Calif., and Dave Reichert, R-Wash., amongst others.

According to the National Federation of Independent Business, tax compliance costs are 65 percent higher for small businesses than for big businesses, costing small business owners \$18 billion to \$19 billion per year. In addition, nearly nine out of ten small businesses rely on outside tax preparers. With about half of the private sector workforce employed by a small business—a total of nearly 60 million Americans—these costs, along with tax rates as high as 44.6 percent, are especially burdensome for a sector that has long been responsible for leading the nation out of economic downturns, Camp's office noted.

"More Americans get their paycheck from small businesses than any other type of business or government," Camp said in a statement. "If we really want to strengthen our economy and put more money in the pockets of American workers, we must fix the Tax Code and how it treats small businesses. In addition to all the complexity these Main Street businesses face, Washington currently taxes them at top rates nearly 10 percentage points higher than their corporate counterparts. That's simply unfair to small businesses in my home state of Michigan and across the country. These are the businesses we see every day, where so many of our friends, family and neighbors work. They sponsor our community athletic teams, and they are the first to step up when our communities are in need. These men and women have first-hand knowledge of what it means when there are fewer resources available to hire and invest in their community. They need and deserve a Tax Code that works for them."

The discussion draft is designed to provide more uniform tax treatment for pass-through businesses such as sole proprietorships, partnerships and S corporations. The discussion draft includes proposals that would spur investment in equipment needed to grow business operations by providing permanent expensing of investments and property under Section 179 of the Tax Code. The document would also simplify tax and accounting practices by expanding the use of the simpler "cash accounting" method to businesses with gross receipts of \$10 million or less. In addition, it would provide relief for start-up and organizational costs by establishing a unified deduction for these expenses; and make tax compliance easier for partners and S corporation shareholders by reordering and simplifying the due dates of tax returns for partners and S corporations.

In addition, the draft outlines and seeks feedback on two separate options for reform of tax rules governing S corporations and partnerships. Option 1 improves the ability of S corporations to compete, grow and gain access to capital by revising and modernizing current tax rules affecting S corporations and partnerships. Option 2 simplifies the tax treatment of non-publicly traded companies by repealing existing tax rules governing partnerships and S corporations and replacing those rules with a new unified pass-through regime.

Camp released the new discussion draft on small businesses, in part as a response to the input and feedback the Committee received during three separate hearings held during the 112th Congress that addressed issues critical to business owners.

An [overview](#) of the [discussion draft](#) along with a detailed summary can be found at the Ways and Means [Web site](#). Camp encouraged stakeholders to review and comment on the discussion draft and to share feedback with

their lawmakers and the Ways and Means Committee.

“The Tax Code ought to be easier to understand and less expensive for small businesses to comply with because every dollar they aren’t spending on taxes is a dollar they have to invest in equipment, start a new production line, hire a new employee or provide more in wages and benefits,” he said. “That is my goal for comprehensive tax reform—a simpler, fairer Tax Code that leads to more jobs and higher wages.”

Camp’s Democratic counterpart on the Ways and Means Committee, ranking member Sander Levin, D-Mich., acknowledged that some of its provisions would attract support from Democrats, but he also encouraged the working groups on the committee that he and Camp recently set up to do their work.

“The draft plan laid out by Chairman Camp includes several proposals that have bipartisan support, including many that were put forward by the Obama administration,” Levin said in a statement. “The working groups that Chairman Camp and I have set up are undertaking important fact-finding. Going forward, we must allow them to do their work to fully understand the strengths and weaknesses of present law, without prejudicing their discussions by suggesting solutions to problems that are still under investigation. As we proceed, Democrats will continue to work toward tax policies that at every step promote both growth and equity and the need for additional revenues to help lower the deficit and sustain vital progress for our citizens.”

To submit comments to the committee on the discussion draft, email them to [Tax.Reform@mail.house.gov](mailto:Tax.Reform@mail.house.gov) and indicate in the Subject field “Discussion Draft 3: Comments regarding pass-through entities.”



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